

Message Text

SECRET POSS DUPE

PAGE 01 CAIRO 03930 111926Z

72

ACTION EB-11

INFO OCT-01 NEA-10 ISO-00 SPC-03 AID-20 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 SCEM-02

INT-08 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 DODE-00 PA-04 USIA-15 PRS-01

L-03 DRC-01 /161 W

----- 099408

R 111532Z DEC 73

FM USINT CAIRO

TO SECSTATE WASHDC 4647

INFO AMEMBASSY BEIRUT

AMEMBASSY KUWAIT

AMEMBASSY JIDDA

USMISSION NATO

S E C R E T CAIRO 3930

NATO FOR SECRETARY'S PARTY

E.O. 11652 GDS

TAGS: ENRG EG

SUBJECT: RECENT DEVELOPMENTS IN SUMED NEGOTIATIONS

1. ON DECEMBER 11 MR JOHN O'CONNELL AND TWO SENIOR OFFICERS OF BECHTEL INTERNATIONAL BRIEFED USINT ON THE PROGRESS OF THEIR NEGOTIATIONS WITH OFFICIALS OF THE MINISTRY OF INDUSTRY ON THE SUMED PIPELINE CONTRACTS. AFTER AN APPARENT IMPASSE REACHED AT THE END OF THE NEGOTIATIONS ON DECEMBER 10, THE DISCUSSIONS ON DECEMBER 11 RESOLVED MANY OF THE OUTSTANDING POINTS AND SIGNATURE OF THE CONTRACT IS EXPECTED SHORTLY. MR O'CONNELL INDICATED THAT THE SECRETARY HAD BEEN BRIEFED BY BECHTEL DURING THE PAST WEEK AND ASKED SPECIFICALLY THAT THE SECRETARY BE BROUGHT UP TO DATE ON THESE DEVELOPMENTS.

SECRET

SECRET

PAGE 02 CAIRO 03930 111926Z

2. DUE TO THE RISING COSTS, ESPECIALLY IN STEEL PIPE, AND TANKS, CAUSED BY THE OIL EMBARGO AND ENERGY CRISIS,

BECHTEL STATED AT THE OUTSET THAT THEY WOULD HAVE TO REQUEST RELIEF FROM THEIR ORIGINAL BID OF 397.6 MILLION DOLLARS. THE MAXIMUM INCREASE WHICH BECHTEL PROJECTED WAS 20 MILLION DOLLARS. THE EGYPTIANS INSISTED THAT BECHTEL MAINTAIN ITS ORIGINAL AGREEMENT AND WOULD ALLOW NO COST INCREASE. DR TAHIR AMIN, DEPUTY CHAIRMAN OF THE GENERAL INDUSTRIALIZATION AUTHORITY AND ACTING MINISTER OF INDUSTRY THREATENED BECHTEL WITH RECALLING THE FRENCH CONSORTIUM "SIE BATTIGNOLE" IF BECHTEL COULD NOT ACCEPT THE ORIGINAL TERMS.

3. IN A FOUR-HOUR NEGOTIATING SESSION ON 11 DECEMBER BECHTEL COMMENCED BY INSISTING ON PRICE RELIEF, WHILE THE EGYPTIANS REFUSED. THROUGH A SERIES OF PROPOSED AND REJECTED FORMULAS, THE FINAL FORM OF THE AGREEMENT WAS REACHED AS FOLLOWS: BECHTEL WILL UNDERTAKE A STUDY OF THE PRICE INCREASES OF ALL MATERIALS AND EQUIPMENT NEEDED COMMENCING OCTOBER 1, 1973 AND ENDING JANUARY 31, 1974. THOSE PRICE INCREASES WHICH CAN BE DIRECTLY ATTRIBUTED TO THE EFFECTS OF THE OIL EMBARGO AND RESULTANT ENERGY CRISIS WILL BE BORNE BY THE EGYPTIANS--THAT IS, EVENTUALLY BY THE NEWLY FORMED ARAB PIPELINE COMPANY (SEE BELOW) THOSE INCREASES NOT ATTRIBUTED TO THE OIL EMBARGO WILL BE BORNE BY BECHTEL. REGARDLESS OF THE DATE OF SIGNING, THE EFFECTIVE DATE OF THE CONTRACT WILL BE JANUARY 31, 1974. EGYPT WILL ADVANCE FUNDS FROM THE ARAB PIPELINE COMPANY TO BECHTEL STARTING DECEMBER 29 TO COVER BECHTEL'S PURCHASES OF STEEL PIPE (FROM ITALY) AND STEEL TANKS FOR THE TWO TERMINALS (FROM US) IF FOR ANY REASON THE CONTRACT IS NOT HONORED TITLE OF THESE ITEMS WILL REVERT TO EGYPT.

4. ONLY ONE CLAUSE IN THE AGREEMENT NOW GIVES BECHTEL CAUSE FOR COMPLAINT. THIS STATES THAT IN THE EVENT THAT THE US GOVERNMENT ORDERS BECHTEL TO CEASE OPERATIONS, THEN BECHTEL WILL BE RESPONSIBLE FOR ANY COST OVERRUNS INCURRED BY WHATEVER COMPANY UNDERTAKES TO COMPLETE THE JOB. THE EGYPTIANS ARGUE THAT THIS CLAUSE WAS IN THE PROPOSED CONTRACT WITH SIE BATTIGNOLE, AND THEY INSIST THAT IT BE IN THE BECHTEL CONTRACT. BECHTEL HAS STATED THAT SUCH A CLAUSE WAS APPLICABLE WHEN THE EGYPTIANS WERE DEALING WITH

SECRET

SECRET

PAGE 03 CAIRO 03930 111926Z

A CONSORTIUM COMPOSED OF COMPANIES FROM SEVEN DIFFERENT COUNTRIES, BUT THAT IT HAS NO LEGAL EFFECT OR PRECEDENCE IN AMERICAN LAW. BECHTEL IS TRYING TO HAVE THIS CLAUSE REMOVED BEFORE FINAL SIGNING.

5. IN A RELATED DEVELOPMENT, THE CAIRO PRESS ANNOUNCED ON DECEMBER 11 (WITH THE CONSPICUOUS OMISSION OF BECHTEL AS THE CONTRACTOR) THE FORMATION OF AN ARAB COMPANY TO FINANCE AND HOLD THE SUMED PIPELINE. THE CAPITALIZATION IS AS FOLLOWS: EGYPT 200 MILLION DOLLARS; SAUDI ARABIA 80 MILLION DOLLARS

KUWAIT 80 MILLION DOLLARS; QATAR 20 MILLION DOLLARS; AND ABU DHABI 20 MILLION DOLLARS. NO MENTION WAS MADE OF THE ROLE OF THE EXIM BANK MAY PLAY IN THIS FINANCING ALTHOUGH MR O'CONNELL OBSERVED THAT ROGER TAMRAZ OF KIDDER-PEABODY, BEIRUT WAS IN WASHINGTON DISCUSSING THIS MATTER WITH EXIM OFFICIALS. MR OCONNELL ALSO OBSERVED THAT AS MUCH OF THE MATERIAL AND MACHINERY NEEDED IN THE PIPELINE PROJECT WAS BEING PURCHASED OVERSEAS, THE EXIM REQUIREMENT MAY BE SUBSTANTIALLY REDUCED.

6. COMMENT:: THE DRAMATIC REVERSAL OF THE EGYPTIAAN POSITION IS SOMEWHAT DIFFICULT TO ANALYZE AT THIS TIME. IT IS FELT THAT THE MAIN REASON BEHIND THE EGYPTIANS REFUSING TO ALLOW A PRICE INCREASE WAS THAT BY DOING SO THEY WOULD BE OFFICIALLY ACKNOWLEDGING THAT THE OIL EMBARGO WAS NOW AFFECTING ARAB COUNTRIES. BECHTEL OFFICIALS FEEL THAT THE REVERSAL WAS DUE TO THE FACT THAT THE EGYPTIANS ARE LEGALLY BOUND TO OBTAIN THE SIGNATURES AND AGREEMENTS TO THE NW PIPELINE COMPANY BY DECEMBER 29TH AND THAT INTIAL DEPOSITS MUST BE MADE BY THAT TIME. WITHOUT A FIRM CONTRACT IN HAND AND ESPECIALLY WITH BECHTEL, SOME COUNTRIES ESPECIALLY KUWAIT AND SAUDI ARABIA MIGHT HAVE WITHHELD THEIR COMMITMENTS UNTIL THE CONTRAC
E E E E E E E

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM PIPELINES, EMBARGOES, CONTRACTS
Control Number: n/a
Copy: SINGLE
Draft Date: 11 DEC 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973CAIRO03930
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: n/a
From: CAIRO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731233/aaaaaxuc.tel
Line Count: 132
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: SECRET
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: SECRET
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags: ANOMALY
Review Date: 11 DEC 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <11-Dec-2001 by thigpegh>; APPROVED <07-Jan-2002 by morefirh>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: RECENT DEVELOPMENTS IN SUMED NEGOTIATIONS
TAGS: ENRG, EG, BECHTEL
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005